82d Congress *2d Session*	HOUSE OF REPRESENTATIVES	Report No. 2478

AMENDMENT OF SECTION 2879 (B) OF THE INTERNAL REVENUE CODE

July 3, 1952.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. Eberharter, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H. R. 7651]

The Committee on Ways and Means, to whom was referred the bill (H. R. 7651) to amend section 2879 (b) of the Internal Revenue Code, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment strikes out all after the enacting clause and inserts a substitute which appears in the reported bill in italic type.

PURPOSE OF THE BILL

The purpose of this bill is to extend from 8 to 12 years the period of storage in bond for distilled spirits which are in internal revenue bonded warehouses on the date the amendment takes effect.

GENERAL STATEMENT

The tax on distilled spirits is unique among excise taxes in that producers are required to pay tax at the end of a fixed period of time, 8 years. As the tax is large relative to the cost of production and warehousing, there results a pressure to place on the market stocks forced out of bond irrespective of the demand for spirits at that time. If stocks so forced out are large in amount, this action can have very unfavorable effects on prices received by producers and the general financial state of the industry.

These statements may become more significant when placed into focus by the relevant factual picture existing at the present time.

Whisky inventories have expanded greatly from the level existing at the end of World War II. Each year since the end of the war, production has greatly exceeded withdrawals from bond plus losses during storage. Production was particularly large in the fiscal year 1951 when the industry was concerned about possible future limitations on output because of the conflict in Korea. As a result, stocks of whisky in bond increased from 307,587,545 tax gallons at the end of the fiscal year 1945 to 751,233,178 tax gallons at the end of the fiscal year 1951. Since June 30, 1951, up to and including April 30, 1952, the stocks of whisky in bond have further increased to 769,763,313 tax gallons.

Tax-paid withdrawals of whisky decreased after fiscal year 1943 and, except for the year ended June 30, 1951, have since been less than the annual tax-paid withdrawals for the fiscal years 1936 to 1943, inclusive. The decrease in tax-paid withdrawals of whisky during and since the war is due, primarily, to the increased use of spirits and alcohol with whiskey in the production of rectified whisky. The records of the Bureau of Internal Revenue show that the total quantities of whisky, including rectified whisky, marketed annually since the war exceed the quantities marketed annually before that event.

The 751,233,178 tax gallons of whisky in internal revenue bonded warehouses on June 30, 1951, consisted of the following quantities, listed according to the fiscal years in which produced:

Year	Tax gallons
1911-21	11, 989
1944	0
1945	4, 607, 034
1946	49, 770, 803
1947	101, 174, 340
1948	124, 200, 582
1949	147, 663, 996
1950	118, 292, 268
1951	205, 512, 166

The 4,607,034 tax gallons produced during the fiscal year 1945 consisted of 1,104,752 tax gallons produced in the fall of 1944 and 3,502,282 tax gallons produced in the spring of 1945; and the 49,770,803 tax gallons produced during the fiscal year 1946 consisted of 22,950,519 tax gallons produced in the fall of 1945 and 26,820,284 tax gallons produced in the spring of 1946.

The average annual disappearances (tax-paid and tax-free withdrawals and losses) of whisky from bond during the fiscal years 1948, 1949, and 1950 were as follows:

Age	Tax gallons
7 to 8 years	10, 754, 930
6 to 7 years	14, 510, 129
5 to 6 years	13. 827, 838
4 to 5 years	4, 307, 656
3 to 4 years	22, 194, 863
2 to 3 years	5, 372, 157
1 to 2 years	1, 298, 842
0 to 1 year	893, 707

It is apparent that there is no immediate problem of importance of forced withdrawals by operation of the 8-year bonded period. In view of the fact that average annual dispapearances of whisky 7 to 8 years old in the fiscal years 1948, 1949, and 1950 were over 10,000,000 tax gallons, it is clear that the 1,104,752 tax gallons which would reach the limit of the bonded period during the fall of the current year will be absorbed in the ordinary course of business. It is equally clear that the 3,502,282 tax gallons which would reach the limit of the bonded period in the spring of 1953 will likewise be absorbed.

While enforced withdrawals of whisky are not imminent. overproduction has been and continues to be such that enforced withdrawals will become necessary. If withdrawals continue to be made in substantially the same age proportions as heretofore, a period of force-outs of stocks presently in bond will begin in the fall of 1953 or the Spring of 1954. With withdrawals continuing in customary age proportions, it is estimated that the quantities of whisky reaching the limit of the 8-year bonded period and which must be withdrawn or forced out are approximately 31,000,000 tax gallons in fiscal year 1954, approximately 57,000,000 tax gallons in fiscal year 1955, and approximately 67,000,000 tax gallons in fiscal year 1956. Variable but larger quantities will reach the limit of the bonded period and must be withdrawn or forced out in the fiscal years 1957 to 1960, inclusive.

It is apparent from the foregoing figures that the present bonding period could adversely affect the distilled spirits industry because it is faced with the prospect of a large accumulation of 8-year-old whisky within approximately 2 years. Under the bill, the industry would have the opportunity to arrange for the disposition of the older whisky stocks in a more orderly manner than appears to be the prospect with the present limitation. This would afford relief insofar as the enforced marketing of the older whisky might be involved. Your committee believes, however, that the bill would not provide a permanent solution of the problem. The solution lies in the adoption by the industry of production programs more consistent with prospective trade requirements.

The proposed extension of the bonded period probably would not substantially affect the aggregate revenue over a period of years provided the tax rate remains unchanged. It would impose upon the Government the burden of safeguarding the whisky in the interest of revenue protection for a longer period, but this would not appreciably increase the expense of supervising warehouse operations.

The Treasury Department does not object to the enactment of the bill.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as introduced, are shown as follows (new matter is printed in italics, existing law in which no change is proposed is shown in roman):

SECTION 2879 OF THE INTERNAL REVENUE CODE

SEC. 2879. DEPOSITS OF SPIRITS IN WAREHOUSES.

(a) ENTRY FOR DEPOSIT.—The distillers of all spirits removed to an internal revenue bonded warehouse shall enter the same for deposit in such warehouse, under such regulations as the Commissioner may prescribe. Said entry shall be in such form as the Commissioner shall prescribe.

(b) TIME FOR PAYMENT OF THE TAX.—

(1) The tax on all distilled spirits hereafter entered for deposit in internal revenue bonded warehouses shall be due and payable before and at the time the same are withdrawn therefrom and within eight years from the date of the original entry for deposit therein; and warehousing bonds hereafter taken under the provisions of the internal revenue laws shall be conditioned for the payment of the tax on the spirits as specified in the entry before withdrawal from the internal revenue bonded warehouse, and within eight years from the date of said entry.

(2) As to all distilled spirits in internal revenue bonded warehouses on the date this subparagraph takes effect, the time within which such spirits are required by existing law to be withdrawn and the tax paid thereon is extended to a period not exceeding twelve years from the date of original entry of such spirits for deposit in warehouse: Provided, That such extension shall not be made in any case unless the warehousing bond shall be suitably endorsed, under such regulations as the Commissioner may prescribe, to extend the liability of principal and surety for the period for which the extension is granted.

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